



Insurance Corporation of British Columbia

Service Plan

2007 – 2009

January 2007



Insurance Corporation of British Columbia
Library and Archives Canada Cataloguing in Publication Data
Insurance Corporation of British Columbia.
Service plan. — 2002/2004-Annual.

Also available on the Internet.
Continues: Insurance Corporation of British Columbia. Performance plan.
ISSN 1718-1151 = Service plan (Insurance Corporation of British Columbia.)

1. Insurance Corporation of British Columbia – Planning - Periodicals. I. Title. II. Title: Insurance Corporation of British Columbia ... service plan.
III. Title: ICBC service plan.

HG9970.A68C36 368.'092'068409711'05 2005-960261-9

Table of Contents

Introduction	1
Letter from the Chair of the Board	2
Statement of Accountability	4
Overview of ICBC	5
Governance	8
Strategic Context	11
Corporate Strategy	19
Strategic Goals, Objectives, Strategies and Performance Measures	21
Strategy Summary	33
Alignment with Government's Strategic Direction	35
Summary Financial Outlook	36
Operating Subsidiaries	37
ICBC Points of Service	39

Introduction

Purpose

The Insurance Corporation of British Columbia's (ICBC) 2007 – 2009 Service Plan presents an overview of the company's three-year plan to fulfill its responsibilities for providing automobile insurance, driver licensing, and vehicle licensing and registration services. In this Service Plan, ICBC sets out its performance accountability to the public by describing:

- where the company envisions itself in three years;
- what goals ICBC needs to achieve to realize this vision; and
- how ICBC defines and measures progress on achieving these goals.

In early 2008, ICBC will publish its 2007 Annual Report detailing the extent to which it has achieved the goals set out in this Service Plan. The Service Plan and Annual Report are companion documents and central to the broader accountability framework for Crown corporations.

In developing the Service Plan, ICBC has relied on guidance provided by:

- the Legislative Assembly of BC's Select Standing Committee on Crown Corporations (SSCCC) in *A Guide to Operations*, April 2003;
- the Crown Agency Secretariat's *Guidelines for Government Organizations Service Plans*, September 2006; and
- the Shareholder's Letter of Expectations between ICBC and government.

Balancing Accountability and Commercial Sensitivity

ICBC is committed to providing customers and the public with information needed to understand the company's plans and to evaluate its performance against those plans. This is fundamental to the governance of any Crown corporation.

ICBC competes with other insurance companies in the sale of optional automobile insurance products in BC, which accounts for over \$1.4 billion in premiums and are an important component of ICBC's business. Due to commercial concerns, this Service Plan does not provide specific information pertaining to ICBC's competitive insurance products, including competitive intelligence, performance measures and targets associated with the competitive line of business, and specific competitive business strategies.

Letter from the Chair of the Board

Chair, ICBC
Vancouver
January, 2007

The Honourable John Les
Minister of Public Safety and Solicitor General
Government of British Columbia

Dear Minister,

On behalf of the Board of Directors and employees, I am pleased to present the company's 2007 – 2009 Service Plan. As in previous years, the Service Plan documents how ICBC will address the challenges and opportunities that lay before us.

Some of our achievements in the past year include making our services more accessible to customers through expanded hours of service at an increased number of service locations, partnering with police and communities to fight auto crime, and establishing a long-term collective agreement. We remain committed to efficiently providing high quality products and services for British Columbians.

By following the strategic framework that has guided our work since late 2002, we have been successful in focusing on building the financial strength of the company and still producing high levels of customer service. While this strategic framework has served us well, we also recognize that strategies need to be updated and adjusted from time-to-time to address the opportunities and challenges ahead.

First, a perspective on some of the risks and issues that face the company. The escalation in the cost of bodily injury claims is a serious concern to the auto insurance industry. It continues to be ICBC's most significant challenge over the next few years. Increasing settlement costs associated with injury claims continue to affect ICBC's ability to provide customers with competitive and stable prices. ICBC is working on addressing these cost trends by working to reduce the number and severity of the crashes that take place.

Also, increasingly competitive labour markets in BC impact the company's ability to attract and retain qualified employees. To deal with this challenge, we will focus on developing and implementing people strategies that are aligned to our business objectives.

In terms of opportunity, the new legislative and regulatory framework affords us clarity on the competitive landscape and benefits our customers by providing improved information and more choice. However, there is more to do. We will work with our broker network and other business

partners to bring further innovative services and products to meet the needs of our customers. In addition, we will also work to ensure that our rates continue to be competitive. There are also further opportunities for ICBC to work with stakeholders, communities and various government agencies to make our roads safer.

With these opportunities and challenges in mind, this year's Service Plan outlines an evolution of ICBC's corporate strategy that brings greater clarity to our strategic direction. The updated vision statement emphasizes ICBC's focus on being BC's preferred auto insurer, providing protection and peace of mind. The goals of the strategy have also evolved, resulting in two changes: (1) the elevation of "Being Competitive" as being applicable across the entire strategy; and (2) emphasis given to sustaining a competitive business operation positioned for the future through the new goal of Operational Excellence.

The company's updated strategy builds on our success to date and ensures ICBC will continue to be focused on meeting our customers' needs and being a valuable asset to our shareholder, now and in the future.

In conclusion, I am excited about the opportunities before us, and I am confident in our ability to meet the challenges ahead. With our great team, a proven history of success and a commitment to our customers, we are well-positioned to be British Columbians' preferred auto insurer.



T. Richard Turner
Chair, Board of Directors

Statement of Accountability

ICBC's 2007 – 2009 Service Plan was prepared under the direction of the Board of Directors in accordance with the *Budget Transparency & Accountability Act*. The Board is accountable for the contents of the plan, including the selection of performance measures and targets and the basis on which the plan has been prepared. The plan is consistent with government's strategic priorities and overall Strategic Plan. All significant assumptions, policy decisions and identified risks, as of December 31, 2006, have been considered in preparing the plan. The Board is accountable for ensuring ICBC achieves its specific objectives and measures identified in the plan and for measuring and reporting actual performance. Achievement of results may be influenced by factors, such as legislative and other external changes, which are beyond the company's control.

The performance targets in this plan have been determined based on an assessment of ICBC's operating environment, forecast conditions, risk assessment and past performance.



T. Richard Turner
Chair, Board of Directors

Overview of ICBC

ICBC is a provincial Crown corporation established in 1973 to provide universal compulsory automobile insurance (Basic insurance) to BC motorists. ICBC is the sole provider of Basic insurance in the province. Since 2003, Basic insurance rates have been regulated by the British Columbia Utilities Commission (BCUC). In addition, ICBC competes with other insurance companies in the sale of Optional automobile insurance coverages.

ICBC is one of Canada's largest property and casualty insurers with annual earned premiums of approximately \$3.3 billion and approximately \$9.0 billion in assets, and employs approximately 5,000 people¹. ICBC offers insurance products to more than three million policyholders through a network of over 900 brokers, government agents and appointed agents. ICBC's claims handling services process approximately 947,000 claims per year through our 24-hour telephone claims handling facility, which operates seven days a week, our province-wide network of over 39 claims service locations and our corporate website (icbc.com).

ICBC invests in loss management programs to prevent crashes, automobile crime, and fraud, which benefit customers by keeping insurance premiums competitive and stable.

In addition to its Basic insurance and Optional insurance lines of business, ICBC provides vehicle and driver licensing services, vehicle registration services and fines collection on behalf of the provincial government. ICBC refers to the provision of these services as its Non-insurance line of business.

The primary function of insurance is to spread risk through the collection of premiums from many to pay for the losses of a few. Premiums, therefore, are

designed to reflect the risk of loss. In 2006, ICBC earned approximately \$3.3 billion in premiums for both Basic and Optional insurance from about 3.2 million annualized policies sold. In the same year, the company incurred approximately \$2.6 billion² in insurance claims costs.

Similar to vehicle owners in other provinces, BC residents are legally required to purchase a Basic package of insurance. For the Basic product, private passenger and commercial vehicle owners are provided with \$200,000 in third-party legal liability protection, \$150,000 in no-fault accident benefits, and \$1 million of underinsured motorist protection. Buses, taxis, limousines and extra-provincial trucking and transport vehicles have higher mandatory levels. In addition to providing Basic insurance, ICBC competes with private insurers for the provision of Optional coverages, including extended third party legal liability, collision, comprehensive, vehicle storage, and others. Figure 1 on the next page illustrates the full spectrum of ICBC's Basic and Optional insurance products.

The automobile insurance product in BC is based on a full tort scheme, which means injured parties are entitled to take the at-fault party to court for the full amount of his or her damages (e.g., wage loss, pain and suffering). The insured injured party has access to a maximum of \$150,000 for medical and rehabilitation expenses and up to \$300 per week for wage loss through his or her Basic insurance from ICBC. This differs from other jurisdictions with variants of no-fault automobile insurance. In those provinces, compensation can be based on predetermined benefit schedules, threshold schemes, and/or caps or deductibles on pain and suffering awards. Further, there may be limited or no ability to sue for additional damages.

¹ As ICBC's 2006 financial statements are not finalized as of December 31, 2006, outlooks for 2006 have been provided. These are the best outlooks available at the time the Service Plan was prepared. For final numbers, please consult ICBC's 2006 Annual Report once it is available. Data for the financial information contained in this plan are from ICBC's corporate financial systems, which are audited annually by the Corporation's external auditors.

² Ibid

Figure 1. Basic vs. Optional Insurance

<p>Basic Coverage</p> <p>The minimum amount of insurance any vehicle must carry to legally operate in BC:</p> <ul style="list-style-type: none"> ▪ Third-Party Legal Liability ▪ Accident Benefits ▪ Underinsured Motorist Protection ▪ Protection Against Hit-and-Run and Underinsured Motorists ▪ Inverse Liability Coverage 	<p>Optional Coverage</p> <p>Additional coverage to meet the customer needs:</p> <p>Vehicle</p> <ul style="list-style-type: none"> ▪ Collision ▪ Comprehensive ▪ Specified Perils ▪ Vehicle in Storage ▪ Limited Depreciation Coverage ▪ Replacement Cost Coverage ▪ Collector & Vintage Vehicles <p>Equipment</p> <ul style="list-style-type: none"> ▪ Motor Vehicle Equipment ▪ Excess Special Equipment ▪ Motor Home Contents <p>Individual</p> <ul style="list-style-type: none"> ▪ Extended Third-Party Liability ▪ Excess Underinsured Motorist Protection ▪ Loss of Use ▪ Vehicle Travel Protection ▪ RoadStar / Roadside Plus
--	---

Inter-provincial comparisons are difficult because tort-based and no-fault systems of insurance produce vastly different cost structures and benefit levels. Claims costs in a tort environment are primarily driven by litigation costs, injury severity, and legal precedents, which add a level of uncertainty and unpredictability to costs. In a no-fault system, costs are driven predominantly by wage replacement, no-fault medical and rehabilitation costs, and injury severity.

Loss Management Programs

ICBC invests customers' premiums in fraud prevention and road safety initiatives that provide a direct benefit to its customers through reduced claims costs that ultimately keep premiums competitive and stable. ICBC works with a network of partners across the province to deliver these programs, including the Ministry of Public Safety and Solicitor General, the enforcement community, the Ministry of Attorney General, the Ministry of Transportation, brokers, municipalities, community groups, and volunteers. In 2006, ICBC invested approximately \$48 million on loss management and road safety initiatives.

Non-Insurance Services

Unlike traditional property and casualty (P&C) insurers, ICBC provides a number of Non-insurance services on behalf of government. These services include vehicle and driver licensing services, vehicle registration, and government debt collection.

In 2003, a service agreement between ICBC and government was established to delineate services and their associated costs, thereby creating a stronger foundation for this partnership. The costs of these Non-insurance expenses are funded through ICBC's Basic insurance premiums.

Investments

Investment income contributes significantly to overall net income and plays an important part in minimizing the cost of insurance. ICBC investment assets arise from funds set aside for unpaid claims, unearned premiums and retained earnings. Similar to other P&C insurers offering automobile insurance products, ICBC invests conservatively, with the majority of investments held in the form of fixed income instruments comprised primarily of bonds. The heavy weighting in bonds is designed to offset (hedge) the risk embedded in interest-sensitive liabilities. The portfolio also includes investments in equities and real estate assets, which are held to enhance returns and provide added diversification.

Investment transactions are governed by a set of guidelines and procedures outlined in a Board-approved Investment Policy. This policy addresses the company's risk tolerance and investment goals, and specifies a long-term investment asset mix consistent with these objectives. It also specifies market-linked benchmarks against which investment performance is evaluated. In addition to these internal governance provisions, ICBC is also governed by the "prudent person" standard as set out in the *Insurance Companies Act (Canada)*. This standard requires ICBC to make investments for its insurance business in a manner that "a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and to obtain a reasonable return," and is the same standard required of federally regulated insurance companies.

Key Business Partners

Independent insurance brokers distribute ICBC's insurance product and as such are a key business partner. ICBC and the brokers are guided in this partnership through both the AutoPlan Agency Agreement and the Strategic Broker Accord. The Broker Accord is a five-year agreement expiring December 31, 2007.

The collision repair industry provides auto repair services to ICBC customers. ICBC and the Automotive Retailers Association (ARA) and New Car Dealers Association (NCDA) share in a performance-based agreement negotiated in April 2005 for a three-year period. ICBC and its industry partners are committed to a performance-based system that is fair to all parties, and is in the best interests of our mutual customers, while delivering safe, quality, guaranteed repairs.

The Minister of Public Safety and Solicitor General works closely with ICBC through a Memorandum of Understanding which provides for increased police traffic enforcement activities to curb unsafe driving practices that lead to crashes. Additionally, ICBC enters into agreements with road authorities to share the costs of improvement to road design with the objective of decreasing the frequency and severity of crashes.

The Office of the Superintendent of Motor Vehicles (OSMV), which is part of the Ministry of Public Safety and Solicitor General, and ICBC work together to reduce the number and severity of driver error-based crashes in BC. The OSMV is responsible for driver improvement and medical fitness programs. ICBC is accountable for testing and licensing drivers and administering certain functions on behalf of OSMV. Government agents and appointed agents provide driver and vehicle licensing services to small communities on behalf of ICBC.

Governance

ICBC's governance is defined through legislation applicable to all Crown corporations and legislation specific to the company itself. ICBC's corporate governance is further defined by the Shareholder's Letter of Expectations between the Minister responsible for ICBC as a representative of the shareholder, the Government of British Columbia, and the Chair of ICBC's Board of Directors as a representative of ICBC. The Honourable John Les, Minister of Public Safety and Solicitor General, is the Minister responsible for ICBC.

The Shareholder's Letter of Expectations is designed to create a common understanding between the shareholder and Crown corporation's Board of Directors on responsibilities and accountabilities, key governance issues, corporate mandate and core services, public policy issues, strategic priorities, and performance expectations. For more specific information please refer to the section on Alignment with Government's Strategic Direction.

ICBC's governance is also defined by an explicit organizational framework that sets out the roles and responsibilities of ICBC's Board of Directors and senior management.

Legislative Framework

As a Crown corporation, ICBC is subject to the *Budget Transparency & Accountability Act*, the *Financial Information Act*, the *Financial Administration Act*, and the *Freedom of Information and Protection of Privacy Act*. Under these provincial Acts, the company is accountable for making public its strategic plan (i.e., Service Plan) and performance against the plan (i.e., Annual Report). In addition, ICBC is required to provide financial and other information in accordance

with the requirements of applicable legislation. In terms of providing Basic and Optional insurance and Non-insurance services on behalf of government, ICBC must adhere to a number of Acts, including:

- *Insurance (Motor Vehicle) Act*
- *Insurance Corporation Act*
- *Motor Vehicle Act*
- *Commercial Transport Act*
- *Motor Vehicle (All Terrain) Act*
- *Sales Tax Act (of BC)*

ICBC as a Regulated Crown Entity

In 2003, government passed the *Insurance Corporation Amendment Act*, which named the British Columbia Utilities Commission (BCUC) as the independent regulator for ICBC. In this role, the BCUC's mandate is to approve Basic insurance rates and ensure that ICBC's provision of service for its Basic product are adequate, efficient, just, and reasonable. As ICBC is the sole provider of Basic insurance, this new regulatory environment is important for BC, providing customers with an independent and transparent review of the Corporation's Basic insurance operations and an opportunity to be heard and involved in the review.

The Commission's initial phase of regulation of ICBC includes financial allocation between Basic and Optional insurance business, revenue requirements for Basic insurance, and Basic rate design. The first two elements have been reviewed. The process to review and assess the 2006 revenue requirement concluded in July 2006 with the BCUC decision that approved a 6.5% increase in Basic insurance rates. The focus in 2007 will be to address the third element, which is Basic rate design.

Rate design determines how insurance premiums for each policyholder are established and how insurance premiums are allocated to the different customer groups (e.g., those with good driving and claims histories, those with driving convictions and violations, etc.). While ICBC's revenue requirement application for Basic insurance rates determines how much total revenue ICBC requires from Basic insurance premiums to cover the costs of Basic insurance, Basic insurance rate design determines how much of that total revenue each customer group pays. ICBC's initial Basic insurance rate design application will be submitted in the spring of 2007 along with the 2007 revenue requirement application.

ICBC will continue to meet its accountability requirements so that it contributes to an open and transparent regulatory process for the setting of Basic insurance rates and meet the expectations of its customers.

ICBC Board Governance

The Board of Directors guides the Corporation in fulfilling its mandate, and sets the direction for ICBC. The Board and management approve the corporate vision, mission, values, and goals to guide the Corporation. The Board sets goals for corporate performance and these goals and associated objectives are the basis upon which accountability and performance are evaluated. Performance against these goals and objectives is reviewed and periodically revised when necessary.

As a Crown corporation, ICBC's board members are appointed by the Lieutenant Governor-in-Council. The Board of Directors consists of nine members with a broad range of experience and expertise. The individual members each play an important role and also contribute as committee members of the Board. Figure 2 on page 10 shows ICBC's Board of Directors, its committees, members and mandates, and the Board's guiding principles.

The governance processes and guidelines outlining how the Board will carry out its duties of stewardship and accountability are set out in the Board Governance Manual, which is updated annually by the Governance Committee. Information on Board members and Board policies is now available on ICBC's website, www.icbc.com.

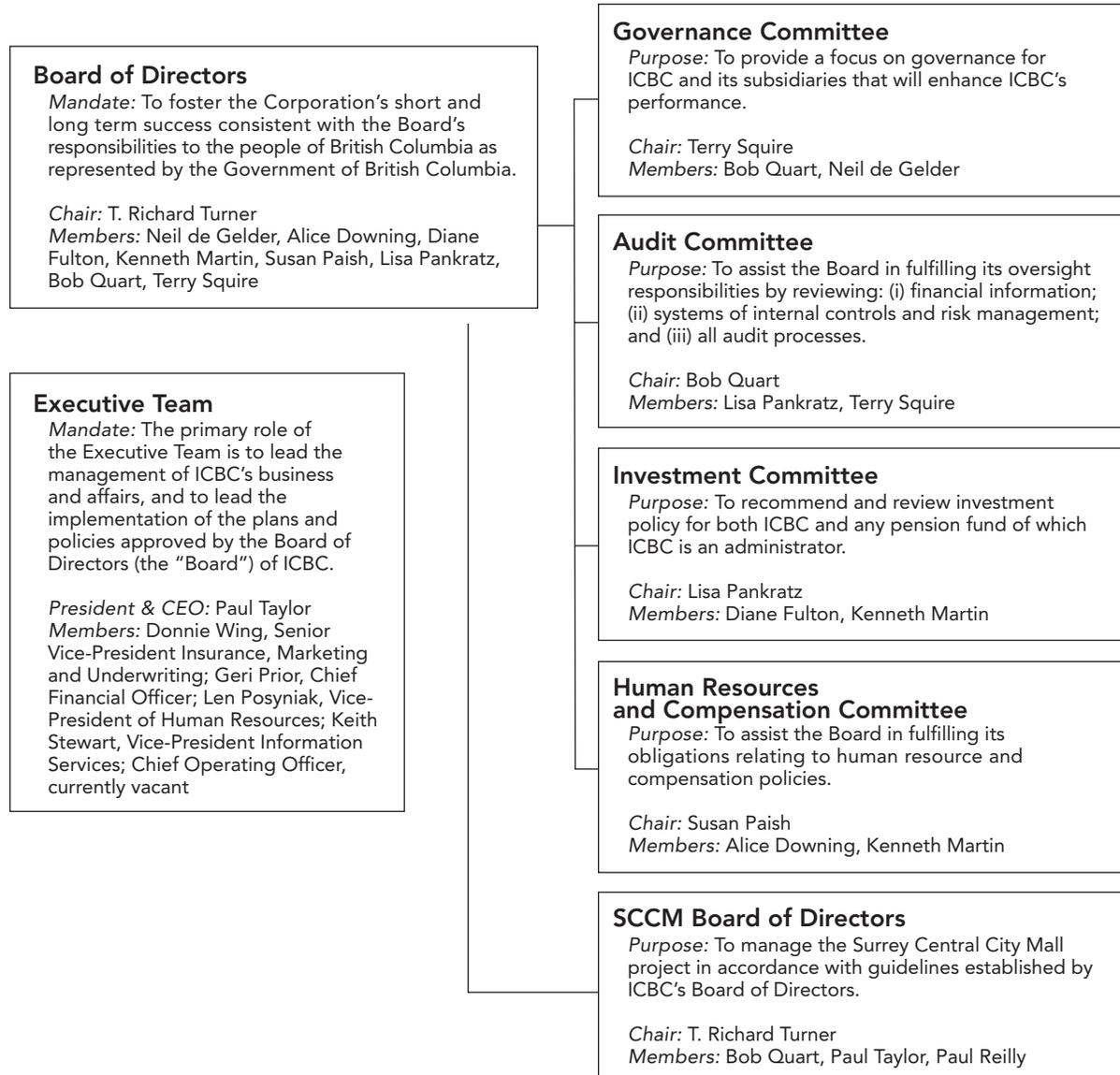
In 2003, ICBC's Board of Directors approved the Corporate Risk Framework, which defined a corporate approach towards the effective assessment and management of significant risks. The framework considers both external and internal environments, and the risks and challenges associated with each. The objective of this framework has been to identify risks, raise awareness of those risks throughout the company, and to initiate further action to control significant risks. The framework is actively used by ICBC executives to monitor strategic risks and planned mitigation strategies. Executive management and the Audit Committee of the Board review key corporate risks and status of related mitigation strategies quarterly, and an update is provided to the Board of Directors. Key risks and issues facing ICBC are discussed later in this Plan.

Operating Subsidiaries

Surrey City Centre Mall Ltd. (SCCM) is ICBC's only active operating subsidiary. It is governed by a four person Board of Directors, made up of SCCM's President, the President of ICBC and two members of ICBC's Board of Directors. SCCM's Board meets quarterly with its senior management. In addition, the company provides ICBC with monthly financial and performance information.

Figure 2

Board Governance Structure



Board Governance Principles

The Board of Directors has adopted the guiding principles included in the provincial government’s “Governance Framework for Crown Corporations” that provides an understanding of the roles and responsibilities for all parties that are part of the Crown corporation governance environment:

- Stewardship, Leadership and Effective Functioning of the Board
- Clarity of Roles and Responsibilities
- Openness, Trust and Transparency
- Service and Corporate Citizenship
- Accountability and Performance
- Value, Innovation and Continuous Improvement

Strategic Context

Industry and Competitive Context

Insurance is a complex business affected by external trends, factors, and risks. Understanding these trends and factors, and their implications for ICBC, is an integral part of planning. These external forces can present both significant opportunities and risks for the company, and hence, heighten the importance of planning to capitalize on the opportunities and mitigate risks.

Profitability of Canadian Property and Casualty Insurance Industry

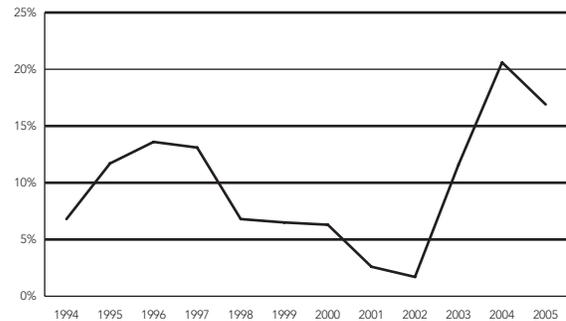
Based on early market indications for 2006, profits will continue to be favorable for the property and casualty (P&C) market. Although returns have come down since 2004, the industry has been able to recoup its losses in the past three years and 2006 will likely yield another year of above long-term average returns of 10%.³

According to 2006 third quarter data from the Office of the Superintendent of Financial Institutions (OSFI), net income for the industry has increased by 7.8% over the same period last year.⁴ This has been led by gains in investment income.

The P&C market has been successful moving from a hard market to a stable and profitable environment. Loss ratios for all lines, with the exception of auto, are at an all-time low and continue on a downward trend. Direct premiums written for third quarter 2006 have increased 6.3% as compared to the first nine months of last year.⁵

Three consecutive years of profitability have contributed to the financial strength of the industry. Excess capital is estimated to be between \$4.7 and \$6.7 billion.⁶ Given the levels of capital and reinsurance coverage, the industry was able to weather the spike in natural catastrophes and man-made disasters through 2005, which triggered claims of about \$1 billion.⁷

**Canadian P&C Insurance Industry
(Average Return on Equity)**



Source: Insurance Bureau of Canada Data (1994-2004) and MSA Researcher (2005)

Automobile Insurance

According to 2005 data, the automobile line constitutes approximately 48% of direct premiums written for the Canadian P&C insurance business, making it the largest line in the industry.⁸

Between 2000 and 2003, customers were seeing double-digit rate increases. At the same time, the residual market (also known as the “shared market”), consisting of consumers unable to purchase automobile insurance through the voluntary market, was at record highs. For example, in 2003, the residual market in Ontario was at 3.5% of the market, based on vehicle count.⁹

³ TD Newcrest Report on Canadian P&C, April 22, 2005

⁴ Office of Superintendent of Financial Institutions 2006

⁵ Ibid

⁶ MSA/Baron 2005 Q2 Report

⁷ Canadian Underwriter 2006 Statistical Issue, “The Pendulum Swings Again”

⁸ Canadian Underwriter 2006 Statistical Issue (DPW for Auto Lines = \$13.4b. Total DPW for Can. P&C = \$28.2b)

⁹ Facility Association – Profile for Ontario: accessed: <http://facilityassociation.com>

In the past 36 months, most Canadian jurisdictions with private insurance systems introduced a series of unprecedented reforms and price controls. These regulatory reforms have addressed the issues of affordability and accessibility for customers, stabilizing the market. There are early indicators of a softening market as rates continue to fall. For example, based on Insurance Bureau of Canada information, Ontario, representing just under 50% of auto premiums written in Canada,¹⁰ has seen a decrease in average rates of approximately 5% in 2005.¹¹ The residual market in Ontario also decreased to 0.6% of the market in 2005.¹²

In addition, claims frequencies have declined to an all-time low in the past few years. Part of this decline was fuelled by customer fears of making claims and the resulting impact on their premiums and possibility of policy cancellation.¹³ As the market continues to soften and insurers begin to compete on coverage “giveaways” like first-accident forgiveness or waived deductibles, there may be notable increases in claims.¹⁴

Regulatory Trends

From today’s vantage point, it is clear that the numerous regulatory reforms across Canada have been successful in curbing the double-digit rate increases experienced in 2003. However, it is still uncertain what the long-term impact of the reforms will yield. Analysis seems to indicate that the experience immediately following a period of major reform is the lowest loss cost point. But as the reforms set in, there is gradual erosion in the efficacy of the reforms to control loss costs. Looking across the country, some highlights of the impact of the reforms include the following:

- In the Atlantic Provinces, New Brunswick and Nova Scotia both introduced a \$2,500 cap, whereas Newfoundland and Labrador introduced a \$2,500 deductible on non-economic damages for minor injuries. The cap on non-economic losses for minor injuries has had a marked impact on bodily injury loss costs. New Brunswick seems to have benefited from this reform more than Nova Scotia because of a stronger threshold (“permanent and serious”) for what is required for an injury to be considered non-minor. The deductible has had no noticeable impact.¹⁵
- In Ontario, which represents 47.9% of the auto insurance market in Canada,¹⁶ there has been a succession of regulatory reforms, beginning in the early 1990s. The most recent reforms, implemented in 2003, seem to have decreased the absolute loss costs per vehicle. However, after an initial decline, bodily injury costs and medical rehabilitation accident benefits increased in 2005.
- Alberta, which represents 13.1%¹⁷ of the auto insurance market in Canada, has introduced a \$4,000 cap on pain and suffering for minor injuries, as well as a maximum rate grid which sets the highest premium that can be charged for high-risk drivers. Since the introduction of the grid rate in October 2004, it is estimated that the average premium for these risks has dropped 34%.¹⁸ However, there is uncertainty around the sustainability of Alberta’s system given the size of the grid pool.¹⁹

Another regulatory issue that has been at the forefront of the industry has been whether the Bank Act would be changed to allow banks to sell, provide information about, or make referrals concerning insurance products from their branches. This round of reviews will not be completed until April 2007²⁰; however,

¹⁰ MSA Researcher based on 2005 Auto Direct Premiums Written

¹¹ Canadian Underwriter 2006 Statistical Issue

¹² Facility Association – Profile for Ontario: accessed: <http://facilityassociation.com>

¹³ Canadian Underwriter 2006 Statistical Issue, “The Pendulum Swings Again”

¹⁴ Ibid

¹⁵ MSA / Baron Outlook Report Q1 – 2006

¹⁶ MSA Researcher based on 2005 Auto Direct Premiums Written

¹⁷ Ibid

¹⁸ MSA / Baron Outlook Report Q1 – 2006

¹⁹ Ibid

²⁰ Canadian Underwriter, October 2006, “Checkmate for Brokers”

early indications suggest that the government does not have plans to change legislation to permit banks to sell insurance through their branches.²¹

On the insurer-intermediary front, recent reviews have looked at financial ties, ownership relationships, contingent commissions, and other incentives and

how they may impact the independence of the broker channel. The Industry Practices Review Committee's (IPRC) consultation paper, released in early 2006, has highlighted that regulators need to encourage greater transparency around perceived or actual conflicts of interest. However, there is no indication, at this time, that there will be any mandated regulatory changes.

²¹ Thompson's Daily Insurance News, October 20, 2006, "Ontario Brokers Convention – 4"

Key Strategic Issues/Risks

Looking ahead to 2007 – 2009, ICBC has identified a number of issues and risks that could impact ICBC's future performance.

BCUC Regulatory Process

BCUC provides regulatory oversight of Basic insurance rates and service and ensures that costs are appropriately allocated between ICBC's Basic and Optional insurance businesses. ICBC supports this process as part of an open and transparent regulatory process for the setting of Basic insurance rates.

ICBC came under the Commission's jurisdiction in 2003. The Commission's initial phase of regulation of ICBC includes financial allocation between the Basic and Optional insurance businesses, and revenue requirements for Basic insurance. The focus in 2007 will be to address Basic rate design. The regulatory process for this is expected to begin in the spring of 2007. The results of the hearing may affect customers across the province with respect to how their Basic insurance premiums will be set.

Need for Reinvestment & Evolution of Service Delivery

Like any business, ICBC needs to examine and renew the business capabilities of its workforce, systems and processes to make improvements in its customer service and efficiency. ICBC reinvests prudently to position the company for the future as business needs evolve and workforce demographics and labour markets change. The highly competitive nature of the BC labour market is a concern for ICBC because it is driving up compensation and threatening our ability to attract and retain talent. This is particularly problematic in certain job categories. We will focus our investments in our people in areas where the need is greatest to appropriately develop and support the business.

ICBC will also be continuing to develop its capital planning framework to ensure capital spending aligns

with the corporate strategy and positions the company to meet customers' needs in 2007 and beyond.

Competition in the Optional Insurance Market

As indicated earlier, the Canadian P&C insurance industry has been experiencing strong profitability resulting from robust market conditions. This may spur more competition as insurers seek to invest excess capital and expand market share.

Based on direct premiums written, the auto insurance market in BC has been growing at an average rate of 6% over the past five years.²² The optional auto insurance market, which represents about half of the BC auto market, has also been growing.

In 2003, the government passed legislation to create a common regulatory framework for both private insurers and ICBC in the optional insurance market. The legislation and regulations will go into effect on June 1, 2007. This will require ICBC to provide an Optional policy contract to customers at the point of sale. ICBC is also required to participate in data sharing of aggregate optional insurance statistical information amongst all competing providers in BC.

Investment Market

Like all insurers, ICBC investment assets arise from funds set aside for unpaid claims, unearned premiums and retained earnings. In holding such assets, investment income is earned and contributes to the company's overall net income, thereby helping to keep rates competitive and stable. This income is affected by the overall condition of the general investment market.

²² MSA Researcher average change in DPW for auto in BC between 2000 and 2005

The investment market outlook for 2007 indicates that interest rates will remain at current levels, with the Canadian dollar weakening marginally against the US dollar. With more than half of ICBC's portfolio invested in fixed income assets, the investment portfolio is vulnerable to rising interest rates. The equity markets are expected to yield fairly modest returns in the single digit range. Changing world events or a possible down-turn in the US economy may affect equity returns.

Automobile Crashes and Crime

Automobile-related crashes and crime present a significant social and economic cost to all British Columbians. As vehicle population grows and the urban density of many BC communities increases, the risk of automobile crashes rises. Vehicle population is projected to grow by 2.5% in 2007.

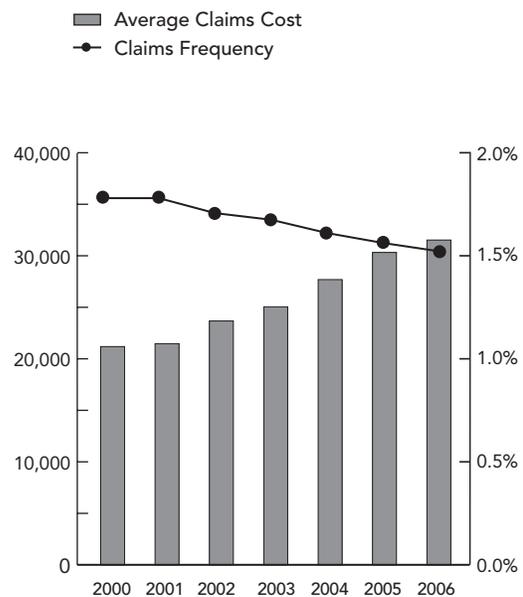
Preliminary data for 2006 shows a slight (less than 2%) increase in the crash rate per 10,000 vehicles insured over 2005. Further analysis is required, but this increase in the crash rate may be linked to the erratic weather in 2006. The subset of more serious crashes reflected in the 2006 injured participant rate, which measures the number of people injured per 10,000 vehicles insured, shows a slight decrease (under 1%) from 2005. These steady trends for both the crash rate and the injured participant rate are consistent with levels from the past several years, and continue to remain significantly below the historical level.

High-risk drivers are a serious concern as they cause a disproportionate number of crashes and these crashes are very costly. There were more than 100 traffic fatalities caused by impaired driving in 2005, and more than 200 fatalities caused by high-risk driving behaviours, such as excessive speed and ignoring traffic signals. ICBC is evaluating the impact of poor driving performance and rates paid by these drivers. Preliminary research indicates that 18.3% of drivers in the province have had demerit points in the last 3 years. This

subset of drivers has caused crashes resulting in payouts in excess of \$1 billion, which represents 51% of our liability payouts.

Although frequency²³ trends are still declining, ICBC analysis shows that the average cost of settling a claim (ultimate severity) has increased. From 2000 to 2006, bodily injury claims frequency declined by 17.2% while the average cost of a bodily injury (BI) claim increased by 48.8%.

**BI Claims, 2000 – 2006
as of December 31, 2006**



Data Source: Actuarial Department

During the same period, the average cost of material damage claims also increased due to higher vehicle repair costs and a newer fleet of vehicles being insured, but this has leveled out over the past three years. In 2007, material damage (MD) costs are forecast to increase by 3.5%. ICBC is actively addressing the increase in claims costs through claims-handling improvements and crash prevention programs.

²³ The number of claims per average number of policy in force during the year

Auto crime is a problem that impacts insurance costs for all British Columbians. It continues to be an area of focus for ICBC even though annual trends now see rates declining from 560 incidents per 10,000 actively licensed vehicles in 2002 to 326 in 2006. Over the past year, the favourable trend has continued, with a 12.6% decline. This improved trend is largely the result of a concentrated focus on auto crime prevention by the police, ICBC, and community stakeholders. Programs include Bait Car, targeted auto crime enforcement programs, public awareness campaigns, and community initiatives such as increased security patrols and the Stolen Auto Recovery program.

Long Term Financial Strength of ICBC

Fiscal strength and stability continues to be a key focus for the Corporation. At the time the minimum regulatory capital targets were set for the Corporation by the Government's Special Direction IC2, ICBC was well below the regulatory targets for the total corporation. The company is working towards appropriate capital levels commensurate with risks within our business. Over the past several years, the Corporation has made significant strides in building its capital levels.

However, new challenges have arisen in the form of increased bodily injury costs. Financial results for 2006 continue to indicate higher claims costs, particularly in bodily injury claims. The increase in claims costs affects corporate financial performance as well as the requirement for future rate increases to cover the increasing costs.

Implementing strategies to address growing bodily injury costs will be one of the top priorities for the company. In addition, ICBC is taking a disciplined approach to managing operating costs, meaning that ICBC will work to keep its operating expenses at or below inflation through 2007 while still ensuring that necessary reinvestment in the business continues to move forward.

Other Risks

ICBC's risk management framework has identified potential corporate level risks that are actively monitored and mitigated. The framework considers both external and internal environments and risks and challenges associated with each. Among other factors, capacity and resources are an essential consideration in the development of mitigating strategies. Key risks and their mitigation strategies are listed in the tables on the following pages.

Business Risks and Risk Management

Claims Costs	
<p>Description of Sensitivities / Risks:</p> <ul style="list-style-type: none"> • Increased fraud, severity, frequency and/or litigation of claims results in higher costs. • Bodily injury claims costs are rising resulting in a significant impact to claims costs and Basic rates. • Claims costs account for approximately 75% of ICBC's total expenditures. A 1% fluctuation in claims incurred represents a \$25-\$30 million change in net income, and a 1% fluctuation in the unpaid claims balance represents an approximately \$51-\$60 million change in claims costs. 	<p>Mitigation Strategies:</p> <ul style="list-style-type: none"> • ICBC uses a number of strategies to minimize the impact of rising claims costs including road safety and loss management activities aimed at reducing crashes, preventing injuries and reducing auto crime. Ongoing monitoring of claims trends and implementation of cost control initiatives are also undertaken. ICBC is focused on implementing short to mid-term strategies aimed at controlling bodily injury claims costs. ICBC also works closely with its many partners in industry to address these cost pressures on an ongoing basis.
Access to Personal Information	
<p>Description of Sensitivities / Risks:</p> <ul style="list-style-type: none"> • As part of both insurance and Non-insurance businesses, ICBC maintains a significant amount of personal information regarding its customers, and deals with business partners and customers over the internet. Access to this information must be carefully managed and measures must be in place to guard against unauthorized access to this data. 	<p>Mitigation Strategies:</p> <ul style="list-style-type: none"> • ICBC's Information Security and Private Policy Steering Committee provides governance over policies established to ensure the collection, use and disclosure for personal information. • ICBC has undertaken a significant awareness campaign within the company, as well as with our business partners, to educate them on the importance of understanding our customer's personal privacy.
Financial Markets	
<p>Description of Sensitivities / Risks:</p> <ul style="list-style-type: none"> • ICBC manages an investment fund of approximately \$7.7 billion in order to partially offset future claims costs. A 1% fluctuation in return means a \$77-\$94 million change in investment income. 	<p>Mitigation Strategies:</p> <ul style="list-style-type: none"> • ICBC's investment policy addresses the Corporation's risk tolerance and investment goals, and specifies a long-term investment asset mix and fixed income duration consistent with these objectives. The policy, which is established by the Investment Committee and approved by the Board of Directors, is based on prudence and regulatory requirements, and provides guidelines for balancing the level of risk and return in ICBC's investment portfolio. • ICBC follows a long term strategy and diversifies its investment holdings to manage return fluctuations.
Business Interruption	
<p>Description of Sensitivities / Risks:</p> <ul style="list-style-type: none"> • Business interruption arising from labour disputes, technology issues or natural disasters can potentially disrupt service levels for insurance, driver, and claims services. 	<p>Mitigation Strategies:</p> <ul style="list-style-type: none"> • ICBC and its bargaining unit employees negotiated a long-term collective agreement (July 1, 2006 to June 30, 2010). • Business Continuity Management program continues to integrate the plan within the business areas to enable the Corporation to provide critical services in the event of such an occurrence. In addition, back-up copies of data are moved to off-site storage and regular testing of critical system recovery through a remote site is completed. • A high level pandemic influenza plan has been drafted and a review of applicable human resource policies, with triggers established for ICBC action, has been completed based on World Health Organization definitions of pandemic alert.

Customer Support

Description of Sensitivities / Risks:

- ICBC's focus on customers is a key goal of the corporate strategy. Changes in service delivery, product pricing or design, ICBC programs, and evolving customer needs impact customer satisfaction.

Mitigation Strategies:

- ICBC monitors customer service performance by measuring the percentage of satisfied customers for each major transaction type — insurance services, driver services, and claims services.
- ICBC communicates with the public and stakeholder groups to raise awareness and inform the public of ICBC's products and the unique value received.
- Policies and procedures have been implemented to support the Corporation's commitment to fairness in all its dealings with customers, including a FairClaim process to provide customers with additional information about decision making and financial impacts in the claims process.
- Review of product offering against customer needs is done, as well as a focus on pricing to ensure stable and competitive prices.

Catastrophic Loss

Description of Sensitivities / Risks:

- Protection against catastrophic loss from an earthquake or other major event is a concern.

Mitigation Strategies:

- In the event of losses resulting from catastrophes such as an earthquake, ICBC has financial protection through a reinsurance policy that is reviewed and renewed annually. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits.
- In addition to protection against individual catastrophic events, the reinsurance agreement protects the Corporation against abnormally large losses by limiting the amount for which the Corporation is liable in any single year.

Workforce Planning

Description of Sensitivities / Risks:

- Retention of corporate talent and planning for replacement of key positions are essential in meeting current and future business needs. This is a particular challenge given the competitiveness of the BC Labor market. Lack of succession planning can result in the loss of skills and knowledge that enable the achievement of corporate goals and objectives.

Mitigation Strategies:

- ICBC's human capital plan is focused on a multi-pronged approach of recruitment, compensation, training and leadership development to attract, develop, and retain talent for the future.

Reputation

Description of Sensitivities / Risks:

- On behalf of the provincial government, ICBC is the sole provider of driver licenses in British Columbia. If a license is fraudulently obtained it could result in public safety or identity-fraud issues.

Mitigation Strategies:

- This risk is mitigated by existing operational processes, which include updated licensing fraud precautions implemented in 2005.

Corporate Strategy

Since late 2002, ICBC's vision of "being the leading insurance company in all aspects of its business, operating competitively and valued by its customers", focused the company to achieve significant success. Specifically, the vision guided the company to:

- restore its financial strength and make inroads into becoming more performance-oriented;
- make strides in better meeting the needs of customers and brokers;
- reduce its optional pricing;
- implement the new regulatory framework for ICBC that was introduced by government in 2003;
- settle a long-term collective agreement; and
- establish performance-based agreements with key suppliers such as the auto repair industry.

The sum of these achievements contributes to the strength of the company today.

Our success to date, and changes in the environment (as reviewed in the previous section), set the stage for a review of ICBC's corporate strategy in 2006. A planning exercise involving senior management and the Board determined that a number of elements of the strategy needed to be revised.

The revised strategy represents an evolution of our business. Some elements of our plan advance current strategies, while others propose a more distinct directional shift, responding to changes we see, and expect to see, in our market.

In updating the company's strategy, our objectives were to:

- incorporate the results of customer research and articulate the focus on customers more strongly;
- simplify the goals and objectives to make it more understandable and relevant to managers and staff; and
- increase alignment of plans, measures and activities to reinforce stronger performance accountability.

On the following pages you will see that ICBC has narrowed the focus of the vision, tightened the language of our mission so that it better aligns to the vision, reworked the goals and redrafted the objectives to better articulate our priorities over the next few years.

Vision

ICBC will be BC's preferred auto insurer, providing protection and peace of mind.

Mission

We deliver quality auto insurance products and services at competitive prices through a knowledgeable team committed to our customers.

Values²⁴

Integrity

We value people by treating others with respect and dignity. We are honest by representing our intentions and ourselves truthfully. We will be accountable for our performance and ensure decisions made are supportable.

Commitment

We demonstrate commitment as employees by doing our best work at all times. ICBC leadership demonstrates commitment to employees by creating a work environment that supports employees in making their best contribution for the benefit of the customer. We are committed to operating in a cost-effective manner and will continue to seek ways to improve efficiency.

Dedication to the Customer

We measure our success by our customers' belief that ICBC products and services provide good value for their money. We provide excellent customer service by approaching every customer interaction as an opportunity to create a positive customer experience.

²⁴ ICBC's values have not changed. An exercise will be conducted in 2007 to review the values

Strategic Goals, Objectives, Strategies and Performance Measures

ICBC's vision is to be "BC's preferred auto insurer, providing protection and peace of mind".

The achievement of the vision is articulated through a strategy that has four corporate goals:

- Customer Focus
- Financial Responsibility
- High Performing, Engaged and Capable People
- Operational Excellence

Within this strategic framework ICBC sets corporate objectives and priorities, and develops business plans. For each goal, specific objectives are established to guide the Corporation. Measures are defined and targets are set to enable performance to be measured for these goals and objectives.

ICBC has revised its corporate goals. Most of the changes are refinements to previous language used to describe each corporate goal. Two changes, however, are more significant.

Being competitive is no longer set apart as a distinct corporate goal, and is now present across ICBC's entire strategy. Achievement of each goal and related objectives ensures we are BC's preferred auto insurer.

The other key change is the introduction of "Operational Excellence" as a corporate goal. This highlights our commitment to sustaining a competitive business by focusing system investments, simplifying and enhancing business processes, and building competitive capabilities in key areas of business need.

The four goals are the foundation of ICBC's performance environment. Having clear strategic direction helps the company set priorities, making certain that efforts across the company are aligned and focused on the same result.

The measures selected to assess ICBC's performance are both financial and non-financial. Where possible, the company uses standard industry measures that enable benchmarking with other insurers. In other cases, because ICBC's business model is relatively unique among P&C insurers, ICBC develops distinctive measures relevant to the area of effort.

Planning at ICBC is a continuous activity. Throughout the year, the Board and management systematically review corporate direction against strategic issues facing the company as part of ongoing risk management processes, and adjust priorities accordingly.

Customer Focus

Providing customers with quality insurance products and services at competitive prices is an ongoing priority for ICBC. We continue to work to understand the diverse needs of British Columbians through research and customer feedback.

Moving forward, the goal of “Customer Focus” reflects this customer research by providing a clearer definition of the key value attributes and experience that ICBC needs to be delivering to customers. It speaks to building a relationship of trust with customers that is based on providing exceptional value, hassle-free claims service, and ease of doing business.

The importance of tailoring products to different customer needs and the role that brokers play in that process is also underscored by a separate objective.

Having “Customer Focus” as a goal for ICBC ultimately speaks to delivering exceptional value, peace of mind, and competitive pricing for both its Basic and Optional products and driver services.

Some examples of how we do this include:

- providing claims services 24 hours-a-day, 7 days-a-week, where customers can speak to a customer service representative;
- improving customer service by opening earlier and closing later at key claims centres and Driver Services centres;
- enhancing ICBC’s Replacement Cost Coverage to provide a full three years of depreciation protection in the event of a claim for owners of new vehicles.

Our Loss Prevention programs and Driver Licensing initiatives are all part of how ICBC provides peace of mind and competitive prices for customers. Investing in making roads safer for all British Columbians, educating drivers and promoting safe driving help to reduce the number of crashes that occur every year and thereby minimize pressure for price increases.

ICBC will work throughout 2007 – 2009 to create a more integrated customer experience, to strengthen our underwriting ability, and to improve customer satisfaction and retention with ICBC by working with our broker partners and service providers.

Objectives

Be an auto insurance company our customers trust to:

- deliver exceptional value, including competitive and stable prices
- provide hassle-free claims service
- be easy to deal with in all aspects of our business

Provide customers with the ICBC product that best matches their needs in partnership with independent brokers

Strategies

- Strengthen our underwriting ability
- Create an integrated customer experience around all major touch points, focusing on value attributes important to customers

Performance Measures

Measuring customer service performance at ICBC is based on the percentage of satisfied customers. A separate measure is used for each major transaction type — insurance product purchase, driver service and licensing, and claims. The design of ICBC’s measures and targets reflects the inherent differences of these key transactions.

An independent research firm is retained to conduct ongoing surveys of customers for the purposes of monitoring satisfaction.

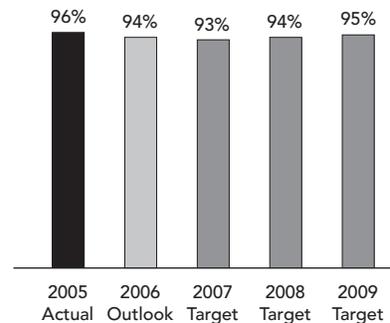
Insurance Services Satisfaction

Independent insurance brokers process approximately three million policies each year. This measure represents the percentage of customers satisfied with a recent ICBC insurance transaction and is based on quarterly surveys of over 1,000 customers over the course of a year. The measure is typically over 90% and indicates the positive relationship ICBC and its brokers enjoy with customers.

Based on the interim results of the first three quarters, the 2006 outlook is at 94%. This is a slight decrease from 2005, but still represents a high level of customer satisfaction with the Autoplan transaction at brokers’ offices. As ICBC has not introduced significant changes in 2006, the company will continue to monitor this trend closely. The 2007 and 2008 targets indicate a decrease from 2005 as a result of the proposed legislative changes requiring a separate Optional policy contract. The separate contract will be a change for ICBC and its customers and an important step in increasing consumer awareness of both the product and the availability of choice. It may, however, initially increase the time it takes to complete an insurance transaction.

With “time” as one of eight factors used in rating customer satisfaction, an increase in transaction time may adversely impact satisfaction scores in the short-term. ICBC will carefully manage the implementation in partnership with brokers to ensure customers get the right information at the right time in ways that ensure a continued positive experience. For this reason, we expect the measure to return to historical satisfaction trends in 2009.

Insurance Services Satisfaction

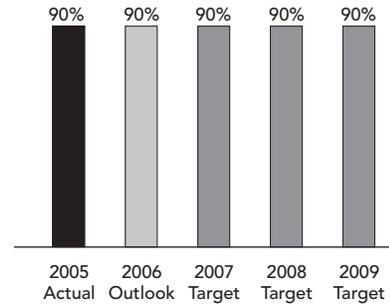


Driver Services Satisfaction

Each year, ICBC conducts over 1.3 million transactions relating to the issuance of driver licenses and driver exams. This measure represents the percentage of customers satisfied with their driver licensing transaction with ICBC, which includes renewing a license, taking a knowledge test, or undergoing a road test. The measure is weighted by the number of transactions for each type of service and is drawn from a sample of approximately 4,000 customers surveyed throughout the year.

The 2006 outlook is in-line with the targets previously reported. The 2007 – 2009 targets are consistent with the 2006 outlook.

Driver Services Satisfaction

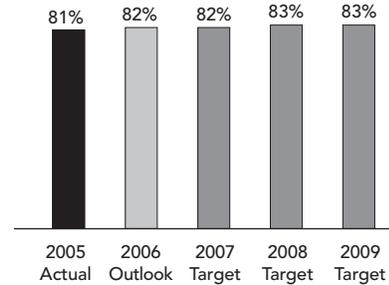


Claims Services Satisfaction

Almost one million claims are processed each year through the telephone claims and claim centres throughout the province. This measure represents the percentage of customers satisfied with a recent ICBC claims transaction and is drawn from a sample of approximately 7,500 customers surveyed throughout the year.

The 2006 outlook is positive and it is expected that we will achieve our target of 82%. However, given the complexity of the claims service and the anticipated organizational and product changes over the next few years, a decision has been made to slightly flatten the 2007 – 2009 targets to more realistically represent the current trends and outlooks. We will continue to work to increase the satisfaction score in 2008 and 2009.

Claims Services Satisfaction



Financial Responsibility

ICBC's strong financial performance over the past several years has provided a solid foundation for the future. The revised financial objective reflects a well-rounded view of the company's approach to achieving financial strength.

The key elements of maintaining ICBC's financial strength will be managing our revenue stream, reducing the growth in claims costs, continuing our disciplined approach to managing operating costs, and maximizing the return on our investments. Successful delivery of these key elements will build capital levels that enable ICBC to provide competitive and stable rates for our customers.

Managing our revenue stream involves appropriate pricing, which relates to ICBC's "Customer Focus" goal. Meeting our customers' needs by delivering exceptional value, including competitive and stable pricing, as well as working with the independent brokers to provide the products our customers need, are key to ICBC meeting its forecasted revenues.

Our most significant challenge moving forward is the growth in claims costs, particularly bodily injury claims. Key areas of focus to address claims cost growth during the next three years include claims handling improvements, targeted crash prevention programs, and product and underwriting refinements.

Claims handling improvements consist of ensuring claims are managed in a manner that takes into account risk and complexity while ensuring a more timely approach. We are also enhancing our analytical and reporting capabilities.

For targeted crash prevention programs, ICBC will continue to partner with the Ministry of Public Safety and Solicitor General and Ministry of Transportation to enhance traffic law enforcement on BC roads and deliver programs that address high-risk drivers.

High-risk drivers are a serious concern and cost exposure for ICBC. Our underwriting refinements will also aim to influence driver behaviour in order to reduce the loss experience of this segment of our customers.

In addition, ICBC is taking a disciplined approach to managing operating costs, meaning that ICBC will work to keep its operating expenses at or below inflation through 2007 while making necessary reinvestments in our business.

Lastly, income from investments contributes to ICBC's financial strength and reduces premiums otherwise payable by our customers. While prudent investment objectives will continue to be implemented, the return on our portfolio of investments is determined in large part by market forces outside of our control.

Objectives

Achieve financial strength through:

- appropriate pricing
- reducing the growth in claims costs
- a disciplined approach to managing operating costs
- maximizing investment returns based on acceptable risk

Strategies

- Reduce the growth of bodily injury claims with claims handling improvements, targeted crash prevention programs, and product and underwriting refinements

Performance Measures

In October 2006, ICBC's Board of Directors approved changes to the company's public corporate performance measures. The Claims Efficiency Ratio will be discontinued for the purposes of the Service Plan and will be replaced by the measures developed for the newly introduced corporate goal of "Operational Excellence". The new measures will be used to evaluate overall corporate efficiency of the company's two areas of operations, Insurance and Driver Services.

Minimum Capital Test (MCT)

MCT is an industry measure set by the Office of the Superintendent of Financial Institutions (OSFI) for federally regulated insurance companies across Canada and is used to determine whether a company has sufficient capital levels to protect policyholders from financial risk and provide long term financial stability.

ICBC's 2006 Outlook for MCT is 23 percentage points higher than 2005 due to higher net income which resulted in higher capital available over capital required.

The target for 2007 is 151%.²⁵ Over the next few years, it is ICBC's objective to maintain a minimum capital level of 150% by 2010 to meet the Corporation's capital management plan target.

Combined Ratio

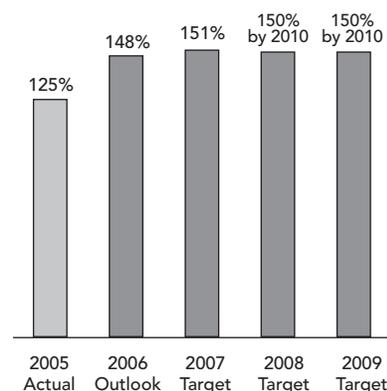
The combined ratio is a key measure of overall profitability within the insurance industry. This measure is calculated as the ratio of costs (claims costs, claims related costs, administrative costs, acquisition costs and non-insurance costs) to insurance premium dollars earned. A ratio below 100% indicates an underwriting profit while a ratio above 100% indicates an underwriting loss.

The 2006 outlook for the combined ratio is better than the 2005 results primarily due to higher than planned premiums earned and lower acquisition costs as a result of a positive adjustment to deferred premium acquisition costs (DPAC). In 2006, the DPAC adjustment accounted for a 2.7% reduction in the combined ratio.

The targets for 2007 – 2009 are higher than the 2006 outlook and reflect current expectations regarding claims cost trends. Targets for 2007 – 2009 do not include any adjustment to DPAC as any adjustment for future years cannot be determined at this time.

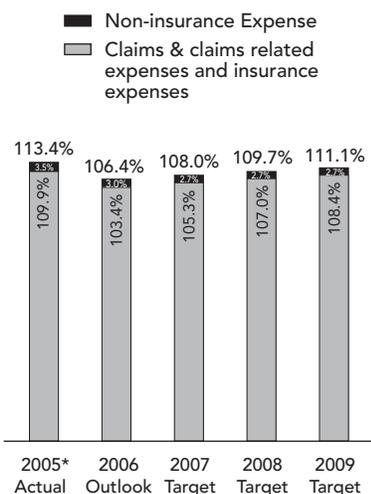
²⁵ The 2007 MCT result may be impacted by OSFI's changes to the MCT calculation to incorporate the new Financial Instrument Accounting Standards which will be incorporated in the first quarter 2007 reporting.

Minimum Capital Test (MCT)



Source: ICBC Financial Systems

Combined Ratio



Source: ICBC Financial Systems

*Certain figures have been reclassified to conform to the current year's presentation.

Loss Ratio

This is a key performance indicator within the insurance industry measuring profitability of the insurance product — the lower the percentage, the more profitable the product. This measure is calculated as the ratio of the total of claims costs and claims related costs, including loss management and road safety costs, to insurance premium dollars earned.

The 2006 outlook for loss ratio is higher than 2005 results largely due to higher prior years' claims adjustments.

The 2007–2009 forecasts are based on the 2006 outlook. The targets from 2007 to 2009 are expected to increase, reflecting an increase in claims trends primarily from rising claims severities.

Expense Ratio

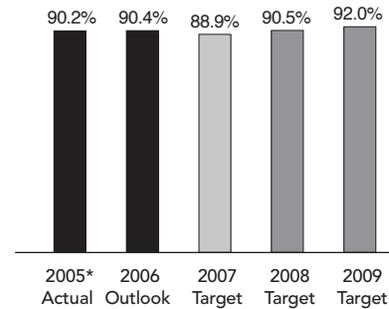
The expense ratio is a standard industry measure for assessing a firm's operational efficiency. This measure is calculated as the ratio of non-claims costs to insurance premium dollars earned. It includes operating costs that are not directly related to servicing claims such as general administration, commissions paid to brokers, taxes paid on premiums written, product design (underwriting), and Non-insurance costs such as those associated with driver and vehicle licensing and vehicle registration. To enable comparisons with industry benchmarks, the expense ratio excludes the impact of one-time non-recurring items.

The expense ratio consists of two key components: the insurance expense ratio and the Non-insurance expense ratio. Segregating expenses in this manner allows ICBC to better manage the costs of operating its insurance and Non-insurance business, and more accurately reflects the distinct nature of ICBC's operating model relative to other automobile insurers.

The overall P&C industry expense ratio for 2005 was approximately 28.1%,²⁶ of which auto insurance is a major component. ICBC believes that the automobile insurance expense ratio for the industry would be lower than the overall P&C expense ratio and that ICBC's expense ratio is lower than the industry average due to its ability to achieve economies of scale, the benefits of integrated operations, and lower marketing, underwriting and general administration costs.

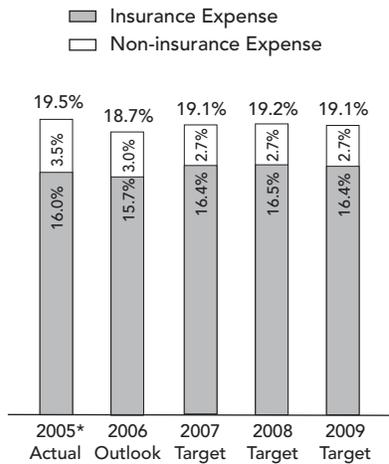
²⁶ MSA Researcher based on 2005 data.

Loss Ratio



Source: ICBC Financial Systems
 *Certain figures have been reclassified to conform to the current year's presentation.

Expense Ratio



Source: ICBC Financial Systems
 *Certain figures have been reclassified to conform to the current year's presentation.

The 2006 outlook for the expense ratio is lower than 2005 because of higher premiums earned and lower administrative expense. Non-insurance costs are also lower with the funding of commercial vehicle compliance which ended on March 31, 2006. The 2007 – 2009 targets demonstrate ICBC's continued commitment to controlling operating costs.

As part of its operations, ICBC incurs Non-insurance expenses in providing driver licensing, vehicle registration and licensing, and government fine collection. The Non-insurance expense ratio represents the ratio of the operations and administration costs of ICBC's Non-insurance business to insurance premium dollars earned. Managing these costs closely ensures ICBC remains an efficient provider of these services on behalf of government. The targets established are consistent with the 2006 outlook but lower than the historical trend. This reduction reflects the March 31, 2006, expiration of ICBC's payment to government for the commercial vehicle compliance functions (\$6.2 million in 2006).

Investment Return

ICBC's investment portfolio was \$7.7 billion at December 31, 2006. The portfolio, which is conservatively invested with the majority of assets held in investment grade bonds, is held to cover future claims payments and is used to reduce the premiums that we would otherwise need to collect from our policyholders. Investment returns, which incorporate both change in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard industry benchmarks.

As well, the return of the overall portfolio is measured against a policy benchmark, calculated as the average of individual asset class benchmark returns, weighted according to the portfolio's strategic asset mix. Asset class benchmarks and strategic asset mix are outlined in the ICBC Statement of Investment Policy and Procedures, which is set by the ICBC Board of Directors.

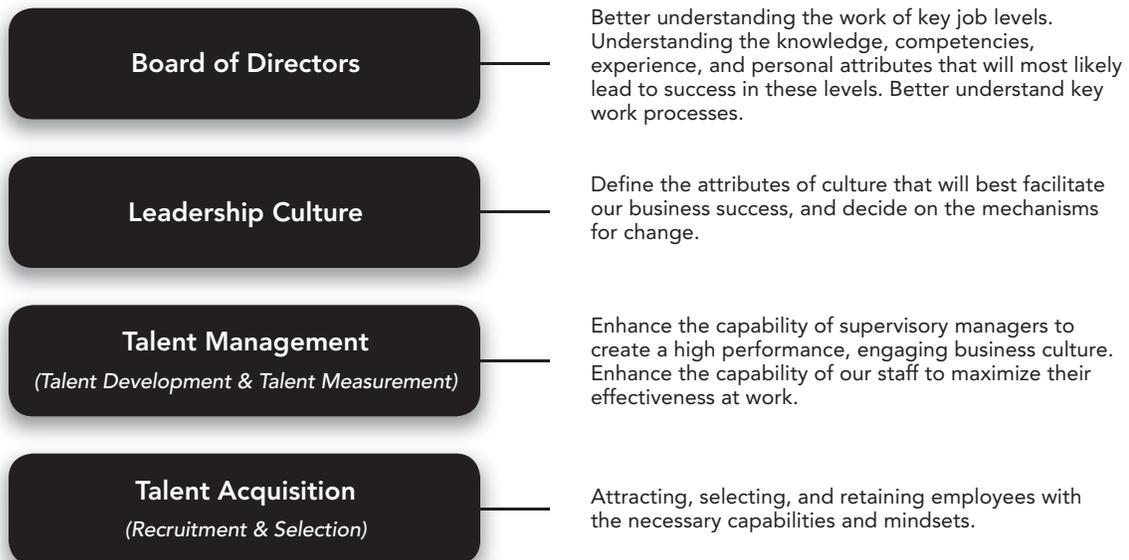
The 2007 – 2009 investment portfolio performance targets are projected to outperform the policy benchmark as described in the ICBC Statement of Investment Policy and Procedures, by 0.268%. For performance measurement purposes, ICBC does not forecast the benchmark return as it is the result of market forces beyond the company's control. In managing the portfolio, ICBC remains vulnerable to rising interest rates, deterioration in equity markets, and currency fluctuations. These risks, which are not unique to ICBC, are proactively managed.

An external performance measurement service independently calculates returns at the portfolio, asset class and investment manager levels. The measurement service then benchmarks ICBC returns against market indices and against a universe of managers running similar investment mandates.

High Performing, Engaged and Capable People

Positioning ICBC to be BC's preferred auto insurer hinges on the performance of its employees. That's because ICBC relies on the expertise of its people to deliver value to customers and maintain the company's financial health. From underwriting to claims, road safety to broker relations, licensing to IT systems support, ICBC personnel support a highly technical and specialized business.

To deliver on its vision, the company needs to focus its investments in people in those areas where the business needs it most. As part of the process to update the company's strategy in 2006, ICBC conducted a thorough examination of its people strategies. The result is a comprehensive three-year plan (2007–2009) that targets four areas, reflecting ICBC's direction in the next three years and the workforce impacts that will arise from making business changes to support that direction.



The ultimate goal is to continue to develop and maintain a workforce that is high-performing, engaged, and capable.

Objectives

Create a performance-driven company by:

- developing our people
- strengthening our leadership capability
- improving employee accountability for delivering results

Strategies

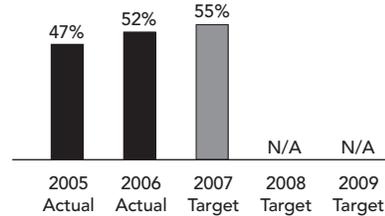
- Position ICBC's workforce to effectively support business strategy by improving leadership capability and talent management processes and outcomes

Performance Measures

Employee Engagement Index

ICBC's goal of High Performing, Engaged and Capable people is currently measured exclusively on the basis of the annual Employee Engagement Index against target. In updating the corporate strategy, it was determined that as a single snapshot of employee opinion, the index is, in isolation, considered to be an insufficient measure for this goal. Work is underway to develop a more comprehensive measure or index of employee performance, engagement and capability for 2008. In the mean time, based upon trends to date, an annual Employee Engagement Index target of 55% was established for 2007.

Employee Engagement Index



Source: Surveys conducted by independent firm

Operational Excellence

The introduction of “Operational Excellence” as a corporate goal signals a continuation of our efforts to excel in operational effectiveness and efficiency. This concept was embedded as an objective in the “Revenue Driven & Fiscally Responsible” goal in the previous framework. When the original strategy was developed in 2002, ICBC focused on the immediate needs of financial stability, dealing with the role of the Corporation, adapting to the challenges of new regulatory relationships and dealing with an outstanding labour contract. With significant progress in dealing with these challenges, management is turning its attention to specific areas of the business that will sustain its competitive position in the market.

This goal involves examining key business processes, and targeting investments in the future to ensure that success is sustainable as the environment and the customers’ needs change. This will be achieved through implementing targeted efficiency improvements, refocusing infrastructure spending so that the company can invest more in transformational change, strengthening key business capabilities, and prioritizing investments based on business requirements and level of urgency.

In the next three years, the focus includes: 1) ensuring the effectiveness of business processes that support strategic priorities; 2) minimizing current support costs to enable renewal of critical systems to the business; and 3) proactively strengthening and investing in those competencies necessary to succeed in the future.

Objectives

Deliver efficient and high quality service by:

- simplifying and enhancing key business processes
- minimizing system support costs to enable renewal of insurance and claims systems
- building our competitive capabilities in underwriting, marketing and business analytics

Strategies

- Examine key business processes critical to ICBC’s success in the market, and set priorities for investment over the next three years

Performance Measures

ICBC will use two new measures to evaluate the efficiency of our services. The measures described below are Insurance Operating Cost Per Policy and Driver Services Cost Per Transaction. As noted in the Financial Responsibility section, these measures replace the Claims Efficiency Ratio measure.

It is important to note that these efficiency measures need to be looked at in conjunction with the Claims, Insurance, and Driver Services satisfaction scores in order to evaluate the quality (effectiveness), as well as the efficiency, of the services provided by ICBC.

Insurance Operating Cost Per Policy

This measures the cost of service delivery of all insurance related activities including sales and marketing, internal and external costs of handling claims, loss management programs, and associated support services. These costs are divided by the number of gross annualized Basic and Optional policies written to arrive at the cost per policy. In general, a year-over-year reduction in the cost per policy indicates an overall increase in the efficiency of the company's Insurance operations.

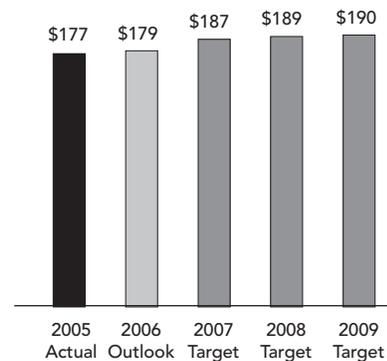
The 2006 outlook is slightly higher than 2005 results largely due to higher external costs of handling claims. The increase in the 2007 forecast is mainly attributable to higher acquisition costs and, to a lesser extent, the increase in external costs of handling claims (such as legal costs) and project expenses. The 2008 – 2009 forecasts are projected to increase slightly primarily due to an increase in acquisition costs.

Driver Services Cost Per Transaction

This measures the Driver Services cost relative to a Driver Service transaction. Driver Services transactions include all key transactions such as driver licenses issued, driver license renewals, British Columbia Identification (BCID) cards issued, address changes, and driver tests. Similar to the Insurance Operating Cost Per Policy measure, in general, a year-over-year reduction in the Driver Services Cost Per Transaction indicates an overall increase in the efficiency of the company's Driver Services Operations.

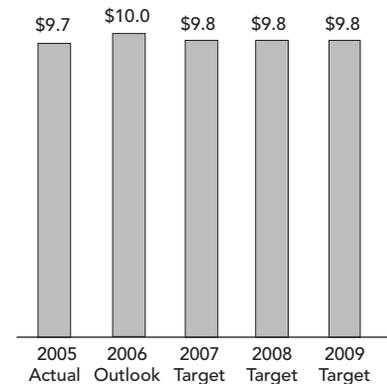
The 2006 outlook is slightly higher due to delays in hiring in 2005. 2007 – 2009 forecasts are expected to remain relatively flat as operating costs are projected to increase at the same rate as volume growth.

Insurance Operating Cost Per Policy



Source: ICBC Financial Systems

Driver Services Cost Per Transaction



Source: ICBC Financial Systems

Strategy Summary

ICBC's current goals, objectives and targets on its high level strategies are contained in the following tables. In addition, information is provided concerning ICBC's performance management systems.

Goal	Objectives — High Level	Measures	Outlook		Target	
			2006	2007	2008	2009
Customer Focus	Be an auto insurance company our customers trust to: <ul style="list-style-type: none"> ▪ deliver exceptional value, including competitive and stable prices ▪ provide hassle-free claims service ▪ be easy to deal with in all aspects of our business Provide customers with the ICBC product that best matches their needs in partnership with independent brokers	Insurance Services Satisfaction	94%	93%	94%	95%
		Driver Services Satisfaction	90%	90%	90%	90%
		Claims Services Satisfaction	82%	82%	83%	83%
Financial Responsibility	Achieve financial strength through: <ul style="list-style-type: none"> ▪ appropriate pricing ▪ reducing the growth in claims costs ▪ a disciplined approach to managing operating costs ▪ maximizing investment returns based on acceptable risk 	MCT ^A	148%	151%	150% by 2010	150% by 2010
		Combined Ratio	103.4%	105.3%	107.0%	108.4%
		<ul style="list-style-type: none"> ▪ Claims & Claims Related Expenses & Insurance Expenses ▪ Non-insurance Expenses 	<u>3.0%</u>	<u>2.7%</u>	<u>2.7%</u>	<u>2.7%</u>
		Total	106.4%	108.0%	109.7%	111.1%
		Loss Ratio	90.4%	88.9%	90.5%	92.0%
		Expense Ratio	15.7%	16.4%	16.5%	16.4%
		<ul style="list-style-type: none"> ▪ Insurance Expense Ratio ▪ Non-insurance Expense Ratio 	<u>3.0%</u>	<u>2.7%</u>	<u>2.7%</u>	<u>2.7%</u>
Total	18.7%	19.1%	19.2%	19.1%		
		Investment Return	Benchmark + 0.268%	Benchmark + 0.268%	Benchmark + 0.268%	Benchmark + 0.268%
High Performing, Engaged & Capable People	Create a performance-driven company by: <ul style="list-style-type: none"> ▪ developing our people ▪ strengthening our leadership capability ▪ improving employee accountability for delivering results 	Employee Engagement Index	52%	55%	N/A	N/A
Operational Excellence	Deliver efficient and high quality service by: <ul style="list-style-type: none"> ▪ simplifying and enhancing key business processes ▪ minimizing system support costs to enable renewal of insurance and claims systems ▪ building our competitive capabilities in underwriting, marketing, and business analytics 	Insurance Operating Cost Per Policy	\$179	\$187	\$189	\$190
		Driver Services Cost Per Transaction	\$10.0	\$9.8	\$9.8	\$9.8

^A The 2007 MCT result may be impacted by OSFI's changes to the MCT calculation to incorporate the new Financial Instrument Accounting Standards which will be incorporated in the 1st quarter 2007 reporting.

Performance Management Systems

ICBC's financial performance measures are derived from the financial forecasts. ICBC maintains and relies on management, system and financial controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. The controls include written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors, who independently review and evaluate these controls. ICBC continually monitors these internal accounting controls, modifying and improving them as business conditions and operations change. Policies that require employees to maintain the highest ethical standards have also been instituted.

ICBC recognizes the inherent limitations in all control frameworks and believes the current framework provides an appropriate balance between costs and benefits desired. ICBC believes that the systems of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

ICBC's non-financial performance measures are generated by external sources. Independent firms are retained to conduct ongoing surveys of customers for the purposes of monitoring satisfaction and an annual survey for the purpose of monitoring employee engagement.

Alignment with Government's Strategic Direction

ICBC's strategic direction focuses the company on providing significant value to all British Columbians, from customers who purchase its products to those holding a BC driver's license, to individuals making a claim, to individuals and communities that benefit from a road safety investment. The goals put forward by government address specific challenges and opportunities in BC, and ICBC is committed to supporting each goal when appropriate within its mandate.

The Shareholder's Letter of Expectations was renewed effective January 2007. It affirms the Corporation's mandate to provide Basic and Optional automobile insurance, and to provide driver licensing and vehicle licensing and registration on behalf of the Province.

In addition to outlining the general government reporting framework and general directions, the Shareholder's Letter of Expectations also addresses the need for ICBC to manage the trend of rising bodily injury costs, help make roads safer in British Columbia, operate in an efficient and effective manner for the benefit of its customers to keep premiums competitive and stable, and meet the terms of the new Optional auto insurance framework to better assist consumers in making auto insurance choices based on their needs.

BC Government Strategic Plan	ICBC'S Strategic Direction
Great Goals	ICBC Alignment
1. To make BC the best educated, most literate jurisdiction on the continent.	<ul style="list-style-type: none"> ▪ ICBC, through joint initiatives with schools, industry associations, brokers and municipalities involves the general public in promoting education specific to our mandate and safe driving. ▪ ICBC also invests in training programs for its employees.
2. To lead the way in North America in healthy living and physical fitness.	<ul style="list-style-type: none"> ▪ ICBC plays a pivotal role in assuring the safety of British Columbians. Each year, the company invests in loss management and road safety programs that reduce the frequency and severity of accidents, and engages a dialogue about issues that affect individuals and their communities, from crime to fraud to safe driving.
3. To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.	<ul style="list-style-type: none"> ▪ ICBC provides no-fault accident benefits for medical and rehabilitation services that assist victims in returning to work and living independently in the shortest possible time. Further, the company embraces values of integrity, fairness and community.

Summary Financial Outlook

\$ millions	2005* (Actual)	2006 (Outlook)	2007 (Forecast)	2008 (Forecast)	2009 (Forecast)
Premiums earned	3,117	3,257	3,434	3,542	3,662
Service Fees	38	47	57	58	59
Investment income	579	513	442	467	496
Total revenue	3,734	3,817	3,933	4,067	4,217
Claims incurred (including prior years' claims adjustments)	2,525	2,644	2,747	2,892	3,046
Claims services & loss management	287	301	304	312	320
Insurance operations expenses	137	133	151	155	159
Acquisition costs (including DPAC adjustment)	478	292	414	430	444
Non-insurance expenses	109	97	92	95	98
Total expenses	3,536	3,467	3,708	3,884	4,067
Net income	198	350	225	183	150
Retained earnings – beginning of year	959	1,157	1,507	1,732	1,915
Retained earnings – end of year	1,157	1,507	1,732	1,915	2,065

Key Assumptions

- Prior years' adjustments in 2007 and beyond reflect changes in the discounted value of unpaid claims.
- Estimated deferred premium acquisition cost adjustments of approximately \$90 million are reflected in 2006. Adjustments beyond 2007 are not determinable.
- The outlook is based on the status quo business model and existing cost structures.
- Return on investment (accounting): 6.9% return for 2006; 5.5% in 2007 and 2008, and 5.4% in 2009 on average portfolio balance including assets pledged as collateral to finance the ICBC Payment Plan.
- The outlook is based on current generally accepted accounting principles. No adjustments have been included to present investments on a mark to market basis.
- These results reflect the overall operations of the business including Basic and Optional insurance and Non-insurance activities.
- Claims incurred reflect current claims trends, vehicle population growth, inflation and a growing BC economy. It also includes the increase in the tariff for legal costs in all years.

Forecast Risks and Sensitivities

- Premiums 1 % fluctuation means \$31 – \$37 million in net premiums.
- Claims 1 % fluctuation means \$25 – \$30 million impact in claims costs.
1 % fluctuation in the unpaid claims balance means \$51 – \$60 million in claims costs.
- Investments 1 % fluctuation in return means \$77 – \$94 million in investment income.
1 % change in investment balance means \$4 – \$5 million in investment income.
- Market share 1 % change in market share represents a \$4 – \$6 million impact on net income.

* Certain figures for 2005 actual have been reclassified to conform to the current year's presentation

Operating Subsidiaries

Surrey City Centre Mall Ltd. (SCCM) was incorporated in 1999 as a subsidiary of ICBC Properties Ltd. (IPL). On January 1, 2004, SCCM was transferred directly to ICBC and SCCM has operated as a subsidiary of ICBC since that time.

SCCM actively manages the Central City project in Surrey. This project includes a 25-storey class A office tower and Galleria built on top of the existing retail development known as Central City Mall (formerly Surrey Place Mall). Construction was completed in 2003 with the net leasable area of the new development being approximately 867,000 square feet. The existing retail mall is approximately 646,000 square feet, of which SCCM owns approximately 517,000 square feet.

The sophisticated nature of the facilities' design and amenities of the Central City development has lent itself to attracting tenants with specific space and technology requirements. For example, in 2004, Simon Fraser University (SFU) purchased net leasable space of approximately 305,000 square feet in the Central City development to create a new Surrey campus.

In 2005, SCCM reported a net operating profit of \$2.1 million based on revenues of \$14.7 million and expenses of \$12.6 million. In 2006 SCCM's net operating profit is projected to be \$8.1 million, reflecting revenues of \$21.2 million, expenses of \$15.3 million and a gain on sale of real estate of \$2.2 million. These financial results are included in ICBC's financial summary provided in the Service Plan.

SCCM markets Central City's offices as an international quality leasing opportunity. Its 2006 capital budget of \$13 million supported new construction of retail development and other tenant improvements and allowances. These expenditures focused on realizing maximum value from the asset, with the goal of leasing additional space, particularly retail space, and generating more revenue overall. These are both key measures of performance for the company.

Currently, with the tower development fully occupied and the strong market, SCCM has started a process to market the property for sale. Completion of this process is anticipated in 2007.



Greater Vancouver	
Claim Centres	10
Driver Services Centres	8
Government Agents	1
Appointed Agents	5
Brokers	296

Vancouver Island	
Claim Centres	7
Driver Services Centres	3
Government Agents	5
Appointed Agents	15
Brokers	143

North/Central	
Claim Centres	8
Driver Services Centres	1
Government Agents	14
Appointed Agents	15
Brokers	66

Fraser Valley	
Claim Centres	6
Driver Services Centres	8
Government Agents	1
Appointed Agents	2
Brokers	239

Southern Interior	
Claim Centres	8
Driver Services Centres	2
Government Agents	8
Appointed Agents	32
Brokers	152

ICBC Points of Service

Greater Vancouver

Claims Centres

Burnaby, Wayburne**
 Coquitlam*,
 Blue Mountain St.
 Coquitlam,
 Centralized Estimating Facility
 Maple Ridge
 New Westminster**
 North Vancouver**
 Sechelt, Resident Office
 Squamish
 Vancouver, 5th and Cambie*
 Vancouver, Kingsway**

Driver Services Centres

Burnaby*
 Burnaby, Metrotown (Express)
 Coquitlam
 Coquitlam (Express)
 North Vancouver
 Vancouver East
 Vancouver, Point Grey
 Vancouver, Robson Square

Government Agents

Maple Ridge

Appointed Agents

Gibsons
 Pemberton
 Sechelt
 Squamish
 Whistler

Fraser Valley

Claims Centres

Abbotsford**
 Chilliwack
 Langley**
 Richmond*
 Surrey, Guildford*
 Surrey, Newton**

Driver Services Centres

Abbotsford
 Langley
 Richmond*
 Richmond (Express)
 Surrey*
 Surrey, Cloverdale (Express)
 Surrey, Guildford (Express)
 Chilliwack

Government Agents

Chilliwack

Appointed Agents

Agassiz
 Hope

Vancouver Island

Claims Centres

Campbell River
 Courtenay
 Duncan
 Nanaimo
 Port Alberni
 Powell River, Resident Office
 Victoria*

Driver Services Centres

Nanaimo
 Victoria, McKenzie Ave*
 Victoria, Wharf Street (Express)

Government Agents

Campbell River
 Courtenay
 Duncan
 Nanaimo
 Port Alberni

Appointed Agents

Alert Bay
 Ganges
 Gold River
 Ladysmith
 Lake Cowichan
 Mill Bay
 Parksville
 Port Hardy
 Port McNeill
 Powell River
 Qualicum Beach
 Sidney
 Sooke
 Tofino
 Ucluelet

Southern Interior

Claims Centres

Cranbrook
 Kamloops
 Kelowna*
 Nelson
 Penticton
 Salmon Arm
 Trail
 Vernon

Driver Services Centres

Kamloops
 Kelowna*

Government Agents

Cranbrook
 Kamloops
 Nelson
 Penticton
 Revelstoke
 Salmon Arm
 Trail
 Vernon

Appointed Agents

Armstrong
 Ashcroft
 Barriere
 Castlegar
 Chase
 Clearwater
 Clinton
 Creston
 Elkford
 Enderby
 Fernie
 Golden
 Grand Forks
 Greenwood
 Invermere
 Kaslo
 Keremeos
 Kimberley
 Lillooet
 Lumby
 Merritt
 Midway
 Nakusp
 New Denver
 Oliver
 Osoyoos
 Princeton
 Salmo
 Sicamous
 Slocan Park
 Sparwood
 Summerland

North/Central

Claims Centres

Dawson Creek
 Fort St. John
 Prince George
 Prince Rupert
 Quesnel
 Smithers
 Terrace
 Williams Lake

Driver Services Centres

Prince George

Government Agents

Atlin
 Chetwynd
 Dawson Creek
 Dease Lake
 Fort Nelson
 Fort St. John
 Prince George
 Prince Rupert
 Queen Charlotte City
 Quesnel
 Smithers
 Stewart
 Terrace
 Williams Lake

Appointed Agents

Bella Coola
 Burns Lake
 Fort St. James
 Fraser Lake
 Houston
 Hudson's Hope
 Kitimat
 Mackenzie
 Masset
 McBride
 New Hazelton
 100 Mile House
 Tumbler Ridge
 Valemount
 Vanderhoof

Other Points of Service

ICBC on-line Claim Report:

www.icbc.com/claims-repairs

24-hour Dial-a-claim:

604-520-8222 (Lower Mainland)
 1-800-910-4222
 (outside LM & out of province)

* extended hours of operation

** extended hours of operation effective Feb. 12, 2007

HEAD OFFICE

151 W Esplanade
North Vancouver, BC
V7M 3H9

604-661-2800
1-800-663-3051

ADDITIONAL INFORMATION

Additional information about ICBC is available at www.icbc.com

PI295 (012007)